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FM AMEMBASSY SOFIA

TO RUEHC/SECSTATE WASHDC IMMEDIATE 5673

INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY

RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC PRIORITY

RUEAIIA/CIA WASHINGTON DC PRIORITY

RUCPDOC/DEPT OF COMMERCE WASHINGTON DC PRIORITY

RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 000002

SIPDIS

E.O. 12958: DECL: 01/06/2019

TAGS: [ENRG](#) [ECON](#) [PREL](#) [PGOV](#)

SUBJECT: BULGARIA OUT IN THE COLD: DAY TWO OF GAS CUT-OFF

REF: SOFIA 0001

Classified By: Ambassador Nancy McEldowney for reasons 1.4 (b) and (d).

¶1. (C) Summary: Bulgaria endured a second day without gas January 7. Thousands of homes and many schools report significantly reduced - or no - heating, although the country did not experience any major power interruptions. Several large industrial firms are shutting down and laying off employees for the duration of the crisis. Leading opposition parties are calling for the PM's resignation over his handling of the crisis. On the diplomatic front, the Bulgarians will support the "strongest possible" statement at the January 8 EU Foreign Ministers' meeting, calling into question Russia and Ukraine's reliability as partners and demanding immediate resumption of gas supplies. Time is not on Bulgaria's side: record low temperatures are expected and a major political crisis is looming. End Summary.

Situation on the Ground

¶2. (SBU) There were no large scale power outages overnight. Many residences and schools in large cities report significantly reduced heating. Twelve thousand residents of the Black Sea town of Varna are without heat, although emergency gas is being delivered to the district heating station there to ease the transition to fuel oil. In the capital, authorities are discussing the closure of 60 schools due to lack of heating. Hospitals are operating normally. City officials have ordered street lights dimmed and heat to public transportation cut in order to save energy. Power grid oversight officials warn of the possibility of rolling blackouts if the crisis continues. Weather is a factor. Snow is predicted for January 8, followed by a cold snap due to bring record low temperatures to many parts of the country over the weekend.

Economic Impact

¶3. (SBU) Already in the middle of an economic turn-down, Bulgaria's economy is being hit hard by the gas cut. On January 7, the Economy and Energy Minister met with the largest industrial gas users to explain gas usage restrictions. The Bulgarian Association of Employers estimates a business loss of 500 million levs (347 million USD) for each day without gas. Major plants are scaling back and laying off employees while others, such as Neochim Dimitrovgrad -- the largest fertilizer producer in the Balkans -- are closing altogether. Kremikovtsi, Sofia's embattled steel mill, is working at minimum capacity. The Association of Bread Producers said the price of bread would increase by five percent in the next two days.

Political Action and Reaction

¶4. (C) The President will convene an emergency session of his consultative National Security Council at 2:00 pm local time. Meanwhile, Bulgaria continues its diplomatic press. FM Kalfin told Ambassador January 7 that Bulgaria will resist a Czech push for the EU to mediate between Russia and Ukraine. The Bulgarians are pushing for the strongest possible statement coming out of Prague January 8, which calls into question the reliability of both Russia and Ukraine as partners and demands an immediate resumption of supply. Kalfin also said Ukraine had confirmed press reports that Russia had discontinued all deliveries to Ukraine on January 7.

¶5. (SBU) Other members of the ruling coalition reacted strongly to the crisis. The EU Affairs Minister termed the crisis "energy terrorism," while the head of the Parliamentary Foreign Affairs Committee called on NATO to have a stronger say on matters of energy security. President Parvanov is using the gas crisis to demand the re-opening of units 3 and 4 of the Kozloduy Nuclear Power Plant, which were shut down for safety reasons as a condition for Bulgaria's EU accession. Others, including the head of the Bulgarian Energy Holding, correctly characterized the re-opening of Kozloduy as a complete non-starter.

Opposition Turns up the Pressure

¶6. (SBU) Leading opposition party GERB told Embassy January 7 that later the same day it would issue a statement

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demanding PM Stanishev's resignation over his "inadequate reaction to the crisis." The GERB Chairman said PM Stanishev and his government failed to secure alternative energy sources and in January 2008 actually increased Bulgaria's dependence on Russia by signing on to South Stream. While the PM is receiving flak for his government's coziness with Russian energy interests, there is no threat of a no-confidence vote at this point.

Public Reaction

¶7. (SBU) The normally staid Bulgarian population directed outrage at the government for not preventing or preparing for the crisis, and for not "informing the EU" in a timely manner, although there have been no demonstrations. Leading commentators and media outlets stressed the need for diversification of energy sources, including Nabucco and an LNG terminal in Greece. Even before the crisis the Bulgarian public was disgruntled over gas. Prices for natural gas have more than doubled since January 1, 2007, with regular increases coming every three months due to an unfavorable and non-transparent contract Bulgaria signed with Gazprom and three Gazprom-owned intermediaries in December 2006.

McEldowney